

Waterworks District No. 7 Keithville, Louisiana

Financial Statements Year Ended December 31, 2005

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8-16-06



ROBERTSON, BAILES & McCLELLAND LLP
Accountants and Consultants

**Waterworks District No. 7
Keithville, Louisiana**

Financial Statements
Year Ended December 31, 2005

**Waterworks District No. 7
Keithville, Louisiana**

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Independent Auditors' Report

Board of Commissioners
Waterworks District No. 7
Keithville, Louisiana

We have audited the accompanying basic financial statements of the Waterworks District No. 7, Keithville, Louisiana a component unit of the Caddo Parish Commission, as of December 31, 2005, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with United States of America generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Waterworks District No. 7, Keithville, Louisiana as of December 31, 2005, and the results of its operations for the year then ended in conformity with United States of America generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 12, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on page 5 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement



and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information listed in the table of contents is presented for purpose of additional analysis and is not a required part of the basic financial statements of the Waterworks District No. 7, Keithville, Louisiana. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Waterworks District No. 7, Keithville, Louisiana has not presented a comparison of budgeted to actual expenditures that United States of America generally accepted accounting principles has determined is necessary to supplement, although not required to be part of, the basic financial statements.

R. Hunter, B. Baker, & M. McCallister

Certified Public Accountants

Shreveport, Louisiana
May 12, 2006



WATERWORKS DISTRICT #7

6836 COLQUITT ROAD
KEITHVILLE, LOUISIANA 71047

OFFICE HOURS

7:30 to 4:00
Monday-Friday
Phone: 925-6880
Fax 925-3020

BOARD MEMBERS

William Leach
5370 Haywood Dr
Keithville, LA 71047
925-9288

Mary Collier
11104 Peggy Ln.
Keithville, LA 71047
925-0793

Ann Osment
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Keithville, LA 71047
925-4175

OPERATIONS MANAGER

Jerry Taylor
546 Dixon
Shreveport, LA 71106
Phone: 687-3613
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of Waterworks District No. 7, Keithville, Louisiana (District) financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2005. Please read it in conjunction with the District's financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

For 2005, operating revenue for the District was \$621,894 compared to \$582,240 for the year ended December 31, 2004.

During the years ended December 31, 2005 and 2004 (annualized) the District had total operating expenses, excluding depreciation, of \$380,772 and \$344,419, respectively. Net other expense for 2005 and 2004 was \$85,992 and \$76,064.

THE DISTRICT

Waterworks District No. 7, Keithville, Louisiana was created by ordinance on January 8, 1975 as provided under Louisiana Revised Statutes 33:3811. The purpose of the District is to provide water service to the residents of District No. 7. The District is governed by a five person board of commissioners appointed by the Caddo Parish Commission and is considered a component unit of Caddo Parish, Louisiana. Commissioners of the District serve five-year terms and are compensated as provided in Louisiana Revised Statutes 33:3819. The District is comprised of property in southwest Caddo Parish, Louisiana and serves approximately 1,500 customers. Operations consist of seven (7) wells, five treatment plants and approximately 72 miles of water lines. The District employs five full-time employees.

REPORTING ON WATERWORKS DISTRICT NO. 7, KEITHVILLE, LOUISIANA AS A WHOLE

Our analysis of the Waterworks District No. 7, Keithville as a whole begins on page 6. One of the most important questions asked about the District's finances is "Is Waterworks District No. 7 as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the funds maintained by the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is

similar to the accounting method used by most private-sector companies. Accrual of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the District's property tax base, to assess the overall health of the District.

WATERWORKS DISTRICT NO. 7, KEITHVILLE, LOUISIANA AS A WHOLE

Following is the summary information from the statement of net assets (Table 1) and the statement of activities (Table 2) comparing amounts as of December 31, 2005:

Table 1	
	2005
Current and other assets, including investments	\$ 311,980
Restricted assets	325,974
Capital assets	1,984,793
Total assets	2,622,747
Current liabilities	109,553
Long-term liabilities	1,560,151
Total Liabilities	1,669,704
Net assets:	
Reserve for debt service and capital asset purchases	325,974
Unrestricted	627,069
Total net assets	953,043
Total net assets & liabilities	\$2,622,747

Net assets of the District governmental activities increased by \$99,013 or 11.6%. Unrestricted net assets, the part of net assets that can be used to finance the District expenses without constraints or other legal requirements, increased from a year ago, from \$450,498 at December 31, 2004 to \$627,069 at December 31, 2005.

Table 2

	2005
Revenue:	
Water sales	\$578,067
Finance charges on late payment of bills	14,397
New meter installation, membership and reconnect fees	27,613
Ad valorem tax	1,631
Miscellaneous	186
Operating revenue	621,894
Operating expenses	436,889
Operating income	185,005
Other expense, net	(85,992)
Increase in net assets	\$ 99,013

Operating revenue increased \$39,654 in 2005 to a total of \$621,894 as compared to \$582,240 in 2004, primarily as a result of system extension. Operating revenue from non-tax sources increased \$69,149, offset by decreased ad valorem tax revenue (\$29,682) due to the retirement of debt to which the tax revenue was dedicated.

THE DISTRICT'S NET ASSETS

As the District completed the year, its net assets totaled \$953,043, which is higher than last year's fund balance of \$854,030. The reason for the excess is 2005 net income.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of December 31, 2005, the District had invested \$2,700,059 in capital assets. (See table 3 below)

Table 3

	2005
Distribution and treatment systems	\$2,564,965
Equipment	115,528
Vehicle	19,566
Total	\$2,700,059
Major additions include:	
Distribution and treatment systems	\$146,788
Equipment	14,650
Total additions	\$161,438

More detail information about capital assets is presented in Note 2 to the financial statements.

DEBT

As of December 31, 2005, the District's debt totaled \$1,623,841, including \$226,807 issued in 2005.

More detailed information about the debt is presented in Note 4 to the financial statements.

FUTURE ECONOMIC PLANS

In connection with the District's system extension during 2005 and into 2006, the Caddo Parish Commission executed a Cooperative Agreement with the District and completed the addition of water lines that will be maintained by and served by the District. The District does not expect to receive title to the assets constructed by the Caddo Parish Commission. The completion of the extension program will, however, require additional funds to be provided by the District in

the amount of approximately \$46,000 in 2006. These funds will be provided by additional borrowings under its \$643,000 bond issue to the United States Department of Agriculture of which only \$597,000 had been drawn as of December 31, 2005.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the finances for those funds maintained by the Waterworks District No. 7, Keithville and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Waterworks District No. 7, Keithville, at 3836 Colquitt Road, Keithville, Louisiana 71047.

William B. Leach
President

Waterworks District No. 7
Keithville, Louisiana

Balance Sheet

<u>December 31,</u>	<u>2005</u>
Assets:	
Cash and cash equivalents (Note 3)	\$ 207,205
Accounts receivable, net of \$18,000 allowance for bad debts (Notes 1, 3 and 4)	43,716
Total current assets	250,921
Investments (Note 5)	59,566
Restricted cash accounts (Notes 7 and 8)	325,974
Property and equipment, net (Note 2)	1,984,793
Lease deposits	1,493
Total assets	\$2,622,747
Liabilities:	
Accounts payable	\$ 10,016
Accrued wages and expenses	35,848
Current portion of bonds and certificate of indebtedness (Note 4)	63,689
Total current liabilities	109,553
Long-term debt, less current maturities (Note 4)	1,560,151
Total liabilities	1,669,704
	<i>(Continued)</i>

Waterworks District No. 7
Keithville, Louisiana

Balance Sheet

<i>December 31,</i>	<i>2005</i>
<hr/>	
Net Assets:	
Restricted for debt service	325,974
Unrestricted	627,069
<hr/>	
Total net assets	953,043
<hr/>	
Total net assets and liabilities	\$2,622,747
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<i>See accompanying summary of accounting policies and notes to financial statements.</i>	

Waterworks District No. 7
Keithville, Louisiana

Statement of Revenue, Expenditures and Changes in Net Assets

<i>December 31,</i>	<i>2005</i>
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Revenue:	
Water sales	\$578,067
New meter installation, membership fees and reconnect charges	27,613
Finance charges on late payment of bills	14,397
Ad valorem tax income	1,631
Miscellaneous	186
<hr/>	
Total revenue	621,894

Expenditures:	
Salaries and wages	148,137
Depreciation	56,117
Utilities	46,585
Repairs and maintenance	43,146
Contract labor	27,264
Office supplies and expense	25,412
Payroll tax expense	12,355
Lease expense	12,000
Chemicals and chlorine	10,036
Vehicle expense	9,363
Bad debts	8,323
Board member fees	8,190
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(Continued)

Waterworks District No. 7
Keithville, Louisiana

Statement of Revenue, Expenditures and Changes in Net Assets
(Concluded)

<u>December 31,</u>	<u>2005</u>
Accounting and legal	7,144
Insurance	5,234
Fees and permits	4,967
Telephone and communications	4,329
Worker' compensation	3,951
Bank charges	2,643
Equipment lease expense	858
Miscellaneous	835
<u>Total expenditures</u>	<u>436,889</u>
<u>Excess of revenue over expenditures from operations</u>	<u>185,005</u>
Other income (expense):	
Interest and dividend income	7,235
Interest expense	(93,227)
<u>Other expense</u>	<u>(85,992)</u>
<u>Excess of revenue over expenditures</u>	<u>99,013</u>
<u>Net Assets, beginning of year</u>	<u>854,030</u>
<u>Net Assets, end of year</u>	<u>\$953,043</u>

See accompanying summary of accounting policies and notes to financial statements.

Waterworks District No. 7
Keithville, Louisiana

Statement of Cash Flows

<i>Year Ended December 31,</i>	<i>2005</i>
--------------------------------	-------------

Cash Flows From Operating Activities:	
Received from customers	\$ 625,722
Received for ad valorem taxes	30,737
Miscellaneous	1,801
Paid for operations	(229,577)
Paid to employees	(148,014)
<hr/>	
Net cash flows from operating activities	280,669
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Cash Flows From Capital and Related Financing Activities:	
Proceeds from issuance of revenue bonds	226,807
Paid for capital acquisitions	(220,031)
Principal payments – long-term debt	(197,780)
Interest payments – long-term debt	(95,730)
<hr/>	
Net cash flows from capital and related financing activities	(286,734)
<hr/>	
Cash Flows From Investing Activities –	
Receipt of interest and dividends	7,235
Sale of investments	7,049
<hr/>	
Net cash flows from investment activities	14,284
<hr/>	
Net Change in Cash and Cash Equivalents	8,219
Cash and Cash Equivalents – Beginning of Year	524,960
<hr/>	
Cash and Cash Equivalents – End of Year	\$533,179

(Continued)

Waterworks District No. 7
Keithville, Louisiana

Statement of Cash Flows
(Concluded)

Year Ended December 31, 2005

Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets:

Cash	\$207,205
Restricted Assets – Cash	325,974
<hr/>	
Total Cash	\$533,179

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$185,005
Depreciation expense	56,117
Change in operating assets and liabilities:	
Increase in accounts receivable	5,645
Increase in taxes receivable	29,106
Increase in due from other governments	1,615
Increase in accounts payable and accrued expenses	3,181
<hr/>	
Net cash provided by operating activities	\$280,669

See accompanying summary of accounting policies and notes to financial statements

Waterworks District No. 7

Keithville, Louisiana

Summary of Accounting Policies

Business	Waterworks District No. 7, Keithville, Louisiana (a component unit of Caddo Parish, Louisiana) was created by ordinance on January 8, 1975 as provided under Louisiana Revised Statutes 33:3811. The purpose of the District is to provide water service to the residents of District No. 7. The District is governed by a five person board of commissioners appointed by the Caddo Parish Commission. Commissioners of the District serve five-year terms and are compensated as provided in Louisiana Revised Statutes 33:3819. The District is comprised of property in southwest Caddo Parish, Louisiana and serves approximately 1,500 customers. Operations consist of seven (7) wells, five treatment plants and approximately 72 miles of water lines. The District employs five full-time employees.
Basis of Presentation	The financial statements of the Waterworks District No. 7, Keithville have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.
Basis of Accounting	The District utilizes the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded at the time the liabilities are created.
Investments	Investments are stated at the lower of cost or market.
Revenue	Ad valorem taxes are levied on January 1 and due on December 31. Unpaid taxes attach as an enforceable lien on the associated property. Fees for water, meters and connection charges are recognized when earned.
Compensated Absences	Compensated absences for vacation and other paid time off do not accrue past the calendar year.

Waterworks District No. 7 Keithville, Louisiana

Summary of Accounting Policies (Concluded)

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an original maturity of three months or less. For purposes of the statement of cash flows, cash also includes amounts on deposit that are restricted by the related bond indentures.

Accounts Receivable

Uncollectible amounts due for accounts receivable are recognized using the allowance method. The allowance for uncollectible accounts at December 31, 2005, was \$18,000.

Capital Assets

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Distribution and treatment systems	15-50 years
Building, equipment and vehicles	5-15 years

Waterworks District No. 7

Keithville, Louisiana

Notes to Financial Statements

1. **Ad Valorem Taxes** Property tax millage rates are adopted in July for the calendar year in which the taxes are levied and recorded. All taxes are due and collectible when the assessment rolls are filed on or before November 15th of the current year, and become delinquent after December 31. The general obligation bonds to be paid by property tax revenues were retired in 2005 and, accordingly, the District no longer levies the related taxes.

2. **Plant, Property and Equipment** At December 31, 2005, plant, property and equipment is comprised of the following:

Water distribution system	\$2,024,748
Water treatment plants	515,018
Meters	16,896
Office furniture, fixtures and equipment	36,410
Transportation equipment	19,566
Buildings	14,366
Land	25,200
Equipment	47,855

Plant, property and equipment	2,700,059
Less - accumulated depreciation	(715,266)

Plant, property and equipment, net	\$1,984,793
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3. **Cash and Cash Equivalents** At December 31, 2005, all cash and cash equivalents (book balances) were held in demand deposit accounts.

Deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. At December 31, 2005, the district has \$532,895 in deposits (collected bank balances). These deposits are secured from risk by \$100,000 of federal deposit insurance and \$990,828 of pledged securities held by the custodial bank in the name of the fiscal agent bank (GASB Category 3).

Waterworks District No. 7 Keithville, Louisiana

Notes to Financial Statements (Continued)

- 4. Long-Term Debt** The following is a summary of bond transactions of the District for the year ended December 31, 2005:

	Purchase Money Mortgages	General Obligation Bonds	Utility Revenue Bonds	Certificate Of Indebtedness
Balance, January 1, 2005	\$38,462	\$144,000	\$1,363,351	\$ 49,000
Proceeds from issuance of new debt	-	-	226,807	-
Principal payments	(9,383)	(144,000)	(20,397)	(24,000)
Balance, December 31, 2005	\$29,079	\$ -	\$1,569,761	\$ 25,000

Bonds payable at December 31, 2005, is comprised of the following issue:

(Continued)

Waterworks District No. 7
Keithville, Louisiana

Notes to Financial Statements
(Continued)

4. Long-Term Debt
-- (continued)

Utilities Revenue Bonds

\$142,000 Revenue Bonds dated August, 1981; due in annual installments ranging from \$2,000 to \$8,000, plus interest at 5%, through August 2021 \$ 88,000

\$700,000 Water Revenue Bonds dated November 1986; due in annual installments ranging from \$2,000 to \$59,000, plus interest at 6.75% through August 2025 584,000

\$340,000 Water Revenue Bonds dated March, 1992; due in annual installments of \$23,100, including interest at 6.1252%, through August 2033 300,954

\$643,000 Water Revenue Bonds (initial funding in 2005 totaled \$370,000) dated December, 2005; interest only due December 1, 2005, then due in monthly installments of \$2,971, including interest, through December 2039 596,807

Total Utilities Revenue **\$1,569,761**

Certificate of Indebtedness

\$200,000 Certificate of Indebtedness dated February, 1997; due in annual installments ranging from \$17,000 to \$25,000, plus interest at 5.5% \$25,000

(Continued)

Waterworks District No. 7
Keithville, Louisiana

Notes to Financial Statements
(Continued)

4. Long-Term Debt
– (continued)

Purchase Money Mortgages

\$20,230 note payable to bank dated December, 2005; payable in monthly installments of \$466, including interest at 5%, through November 2008; collateralized by equipment \$15,142

\$19,566 note payable to bank dated September, 2005; payable in monthly installments of \$450, including interest at 4.5%, through September 2008; collateralized by truck 13,937

Total Purchase Money Mortgages \$29,079

The annual requirements to amortize all debts outstanding at December 31, 2005, including \$1,692,049 in interest, are as follows:

Year Ending December 31	Purchase Money Mortgage	Utility Revenue Bonds	Certificate Of Indebtedness
2006	\$10,993	\$119,297	\$26,375
2007	10,993	119,273	-
2008	8,968	119,179	-
2009	-	119,016	-
2010-2014	-	599,663	-
2015-2019	-	613,244	-
1020-2024	-	607,788	-
2025-2029	-	356,794	-
2030-2034	-	247,362	-
2035-2039	-	151,403	-
Total	\$30,954	\$3,053,020	\$26,375

Waterworks District No. 7
Keithville, Louisiana

Notes to Financial Statements
(Continued)

-
- 5. Investments** Investments are comprised of the following at December 31, 2005:
- | | |
|-------------------------|----------|
| Certificates of Deposit | \$50,193 |
| Bonds | 7,128 |
| Mutual funds | 2,245 |
| <hr/> | |
| Total | \$59,566 |
- 6. Operating Leases** The District has entered into six operating leases for plots of land, of which five are for the production of water and one is for stand pipe. The following is a schedule by years of future rental payments required under operating leases having remaining noncancellable lease terms in excess of one year as of December 31, 2004: December 31, 2005 – December 31, 2009 - \$3,600 each year, thereafter - \$54,000.
- 7. Restricted Cash Accounts** Restricted cash accounts of December 31, 2005:
- | | |
|-------------------------|-----------|
| Reserve Fund | \$ 45,317 |
| Note Revenue Fund | 70,152 |
| New Well Fund | 12,424 |
| NW Well Fund-Keith Road | 108,504 |
| Depreciation Fund | 89,577 |
| <hr/> | |
| | \$325,974 |
- 8. Subsequent Events** Subsequent to December 31, 2005 \$584,000 in water revenue bonds were paid by the issuance of a lower-rate 2006 issue.

**Waterworks District No. 7
Keithville, Louisiana**

**Notes to Financial Statements
(Concluded)**

- 9. Commitments and Contingencies** The District is currently expanding its water distribution system to meet anticipated future needs. In connection therewith, the District arranged a bond issue through the United States Department of Agriculture, Rural Utilities program for a total of \$643,000. At December 31, 2005, the available funds from the bond issue are \$46,000, of which approximately \$5,000 will be used to pay December 31, 2005 accounts payable and the remainder will be used on system construction in 2006.

Supplemental Material

Waterworks District No. 7
Keithville, Louisiana
Compensation Paid to Board Members
Year Ended December 31, 2005
Schedule 1

A schedule of compensation paid board members is presented in compliance with House Concurrent Resolution No. 54 of the Louisiana Legislature.

Commissioner	Term Expires	Amount
David Carroll, President	January 8, 2010	\$1,890
Mary Collier	January 8, 2006	1,740
William Leach	January 8, 2007	1,620
Peggy Matheny	January 8, 2008	1,620
Ann Osment	January 8, 2009	1,320
Total Per Diem Paid		\$8,190

**Waterworks District No. 7
Keithville, Louisiana
Prior Audit Findings
Year Ended December 31, 2005
Schedule 2**

The following is the status of audit findings reported for the year ended December 31, 2004.

Finding 2004 – 1 - Failure to comply with State audit law

Instance of noncompliance

The District failed to comply with state law (LA R.S. 24:513) since the annual report for the year ended December 31, 2005 was not submitted to the Louisiana Legislative Auditor's Office until after June 30, 2005, the statutory date.

Status

The District has filed all required reports and is expected to timely file its financial statements for the year ended December 31, 2005

Finding 2004 – 2 – Failure to comply with State debt law

Instance of noncompliance

Pursuant to LSA-RA 39:1410.60, no public body may issue debt without the approval of the Louisiana State Bond Commission (Commission). During 2005, the District purchased two items of equipment and financed those purchases, in whole or in part, through loans from a local bank. The two loans, totaling \$39,796, were not submitted to the Commission.

Status

No similar instances were noted in our audit of the financial statements for the year ended December 31, 2005.

Finding 2004 – 4 – Failure to elect a fiscal agent

Instance of noncompliance

State law, LSA-RS33: 3817C(1), requires the District "...on the first Monday in June annually elect a fiscal agent after an advertisement of fifteen days in a newspaper published in the district, and if there be no newspaper within the district, then in the official journal of the parish where the district is located....". Neither the District's banking records nor its directors' minutes reflected adherence to this requirement. The paid invoices of the Official Journal of the District also did not reflect any advertisement for bids from area banks.

Status

No formal process has yet been undertaken by the District; however, in discussions with the office of the Legislative Auditor for the State of Louisiana, it was deemed acceptable to forego the expense of annual elections of fiscal agents as long as the District uses the same depository as the Caddo Parish Commission. The District is using the same institution as the Caddo Parish Commission.

Finding 2004 – 4 – Failure to properly establish annual budget

Instance of noncompliance

State law, LSA-RS39: 1302-1303, requires the District to establish an annual budget prior to the close of its fiscal year. The budget is to be made available to the public and the Board of Commissioners is required to approve the budget annually.

Status

The District could not establish a budget for the year ended December 31, 2005 as the finding was noted too late to establish such a budget. A budget has been established for the year ended December 31, 2006.

**Waterworks District No. 7
Keithville, Louisiana
Current Year Audit Findings
December 31, 2005
Schedule 3**

Finding 2005 – 1 – Failure to properly establish annual budget

Instance of noncompliance

State law, LSA-RS39: 1302-1303, requires the District to establish an annual budget prior to the close of its fiscal year. The budget is to be made available to the public and the Board of Commissioners is required to approve the budget annually. For the year ended December 31, 2005, the District did not have a budget

Management's plan of corrective action

The District could not establish a budget for the year ended December 31, 2005 as the finding from the 2004 audit was not available until the second half of 2005. We did correct the causes leading to the 2004 finding and have established a budget for the year ended December 31, 2006.



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**Independent Auditors' Report on Compliance
and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements
Performed in Accordance with Governmental
Auditing Standards**

Board of Commissioners
Waterworks District No. 7
Keithville, Louisiana

We have audited the basic financial statements of the Waterworks District No. 7, Keithville, a component unit of the Caddo Parish Commission, as of and for the year ended December 31, 2005, and have issued our report thereon dated May 12, 2006. We conducted our audit in accordance with generally accepted auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and is included in Schedule 3.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



This report is intended for the information of the District's management, the Board of Commissioners, the Caddo Parish Commission, and the Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

Robertson Bailey & McWilliams LLP

Certified Public Accountants

Shreveport, Louisiana
May 12, 2006

**Waterworks District No. 7
Keithville, Louisiana**

Schedule of Findings and Questioned Costs

December 31, 2005

Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the Waterworks District No. 7.
2. Approximately \$228,000 in Federal Funds under the "RUS Denali Commission Grants and Loans Program" CFDA Number 10.858 were drawn down with approximately \$6,000 remaining in the construction account at December 31, 2005. Approximately \$46,000 remained available at December 31, 2005 with approximately \$5,000 in expenditures accrued as accounts payable at December 31, 2005.
3. One instance of noncompliance was disclosed during the audit.
4. No reportable conditions were disclosed during the audit of the financial statements in the report on compliance and internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards.
5. A separate management letter was issued and is attached hereto.



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June 8, 2006

Mr. William Leach, President
Waterworks District No. 7
Caddo Parish, Louisiana
6836 Colquitt Road
Keithville, Louisiana 71047

Dear Mr. Leach:

During the course of our audit of Waterworks District No. 7 of Caddo Parish, Louisiana (District) financial statements for the year ended December 31, 2005, we observed the District's significant accounting policies and procedures and certain business, financial and administrative practices.

In planning and performing our audit of the financial statements, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

As a result of our observations, we suggest you consider the following:

General Recordkeeping

**Timely Filing of Records Will
Improve Office Efficiency**

During the course of our audit, we occasionally needed information when the accounts payable clerk was away from the office. Other office personnel attempted to assist us in locating the needed information, but the records had not been filed and, therefore, we were unable to find the necessary information. Filing invoices and other records on a more timely basis would 1) enhance the ability of any authorized person to locate information, 2) reduce time required by the accounts payable clerk to locate data and 3) allow for a more orderly office, which would improve office productivity.

Management's Response

We agree and will endeavor to decrease the time required to accurately file records.



Mr. William Leach, President
June 8, 2006
Page 2 of 4

The District Should Account for Blank Checks Sent to Its Payroll Agency

The District's accounting firm also prepares its payroll. To do so, the District will, from time-to-time send blank check stock to the accounting firm to write the checks. Presently, there is no log kept of the block of checks sent. Accordingly, in order to account for blank check stock at any one time, one must go to both the blank checks held at the accounting firm and at the District. Greater control over the blank check stock would minimize the time required by the District in accounting for its unused checks. Accordingly, we suggest the District prepare a log of all check stock sent to the accounting firm preparing payroll.

Management's Response

We agree and have already instituted a system to account for checks sent to our accounting firm.

Customer Checks Should Not Be Left insight When the Receivable Clerk is Away From Her Desk

The District's offices are such that the person who receives customer payments and prepares the deposit is in front of the window used by customers to pay bills. Additionally, her desk is the first desk one comes to when entering the offices. At times, when preparing deposits, the employee must leave her desk for more than just a minute or two. She typically leaves the customer's checks on her desk when she leaves if the deposit has not been completed. This presents the possibility that a check may accidentally be lost or someone who is not authorized may see the check. Accordingly, we suggest that all receipts be removed from sight if the accounts receivable clerk is required to leave her post for an extended period of time.

Management's Response

We agree with the comment and will take steps to implement your suggestions.



Mr. William Leach, President

June 8, 2006

Page 3 of 4

**Evidence of Management Approval for All Invoices
Should Be Written on the Face of Each Invoice**

During our testing of cash disbursements, we noted that not all invoices had the approval signature of the manager. In subsequent discussions, it was learned that the manager does review all invoices as does the president of the board of commissioners. The size of the District's office and the involvement of the board of commissioners effectively minimizes any chance for material errors or defalcations; however, including evidence of the manager's approval, account coding, payment date and check amount would greatly ease any subsequent research on a given invoice in order to prove payment to a vendor or other interested party.

Management's Response

We agree with this comment and will implement it immediately.

Prior Year Comments

The following are comments from the management letter for the year ended December 31, 2004.

Suggestion 1 – The District should review its personnel policies in light of current overtime law – The District did review its overtime policies and adjusted them to comply with current Fair Labor Standards Act law.

Suggestion 2 – The District should develop a cellular telephone usage policy – The District established an acceptable cellular telephone usage policy in 2005.

Suggestion 3 – Employees and commissioners should be subject to the same policies as other customers – We noted no concerns in this area for 2005.

Suggestion 4 – Minutes of commissioner meetings should be available for public inspection – The Board is making copies of its minutes available to those who wish to review them.

* * *



Mr. William Leach, President
June 8, 2006
Page 4 of 4

A copy of this letter is being sent to all members of the District's Board of Commissioners, the administrator of the Caddo Parish Commission and Louisiana Legislative Auditor.

In the near future Jim McClelland will call to discuss with you the above recommendations and their implementation.

This letter is intended solely for the information and use of management, the board of commissioners, the Caddo Parish Commission and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this letter is also considered a matter of public record.

We appreciate the outstanding cooperation from your staff that our personnel received during the audit of the District's financial statements.

Very truly yours,

A handwritten signature in cursive script. The signature appears to read 'Robertson, Bailes & McClelland LLP'. The letters are fluid and connected, with some capitalization.

Robertson, Bailes & McClelland LLP